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HAWAI'I STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

APPLICANT PROFILE F beds from Franciscan Care Services and the addition of HI 96817 ancis Skilled Nursing Facility Liliha, LLC Correa ger Liliha St. #227, Honolulu, Hawai`i 96817
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Liliha St. #227, Honolulu, Hawai`i 96817
Fax Number:547-8018
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6 Liliha St. #227, Honolulu, Hawai'i 96817
Fax Number:547-8018
TIFICATION BY APPLICANT
pplication and have knowledge of the content and the information project described and each statement amount and supporting
ct to the best of my knowledge and belief.
ct to the best of my knowledge and belief. 12 18 2013 Date

1.	TYPE OR ORGANIZATION: (Please check all applicable)				
	Public Private X Non-profit X For-profit Individual Corporation Partnership Limited Liability Company (LLC) Limited Liability Partnership (LLP) Other:				
2.	PROJECT LOCATION INFORMATION:				
	A. Primary Service Area(s) of Project: (Please check all applicable) Statewide: O`ahu-wide: Honolulu: Windward O`ahu: West O`ahu: Maui County: Kaua`i County: Hawai`i County:				
3.	DOCUMENTATION (Please attach the following to your application form):				
	A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent • See attachment A, Lease Term Document				

- B. A listing of all other permits or approvals from other government bodies (federal, state, county)
- that will be required before this proposal can be implemented (such as building permit, land use permit, etc.)
 - State Department of Health licensure
 - Centers for Medicare and Medicaid Services (CMS) issuance of provider numbers.
- C Your governing body: list by names, titles and address/phone numbers.
 - See attachment B for the list of the officers
- D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:
 - Articles of Incorporation See Attachment C, Articles of Organization
 - By-Laws See Attachment D, Operating Agreement
 - Partnership Agreements Not applicable
 - Tax Key Number (project's location) 1-8-018:003

4. TYPE OF PROJECT. This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

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	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)\$1 ht.114	Change in ownership	Change in service/ establish new service/facility	Change in Beds
Inpatient Facility			& DEV. A	MENC! X		X
Outpatient Facility						
Private Practice						

- 5. TOTAL CAPITAL COST: __\$8,300,00 (Clinical component, \$5,020,000)
- 6. **BED CHANGES.** Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.
 - St. Francis Skilled Nursing Facility Liliha, LLC (St. Francis SNF) will acquire 52 SNF beds from Franciscan Care Services (FCS) (as approved under CON #13-09A) and add 67 more SNF beds for a total of 119 SNF beds.

Franciscan Care Services

		Proposed Beds for your	Total Combined Beds if
Type of Bed	Current Bed Total	Project	your Project is Approved
Skilled Nursing	0	119	119
TOTAL	0	119	119

- 7. CHANGE IN SERVICE. If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please consult Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.
 - St. Francis SNF will be adding SNF service.

8. PROJECT COSTS AND SOURCES OF FUNDS (For Capital Items Only)

List All Project Costs:	CLINICAL	TOTAL	
1. Land Acquisition 14 JAN -9 P3 42	PORTION	AMOUNT	
2. Construction Contract			
3. Fixed Equipment* ST HETH PLAGENCY	\$300,000	\$300,000	
4. Movable Equipment			
5. Financing Costs			
Fair Market Value of assets acquired by lease, rent, donation, etc.	<u>\$4,720,000</u>	\$8,000,000	
TOTAL	\$5,020,000	\$8,300,000	

^{*}Fixed equipment includes medical records, nurse call system, food preparation area equipment and other minor equipment.

This project involves the third, fourth and fifth floors of the existing Sullivan Wing. The third floor held the previously-existing 52 bed SNF unit, while the fourth and fifth floors held acute beds. St. Francis SNF will lease these floors from St. Francis Real Estate Holding Company, LLC (St. Francis RE Holding). There will be some renovation and construction costs, but these costs will be borne by St. Francis RE Holding.

B. Source and Method of Estimation

Describe how the cost estimates in Item "A" were made, including information and methods used: Cost estimates are based on a draft business plan prepared by St. Francis staff.

C. Source of Funds	AMOUNT:
1. Cash	\$300,000
2. State Appropriations	
3. Other Grants	
4. Fund Drive	base = a constant a
5. Debt	
6. Other: (Fair market value of leased space)	\$8,000,000
Other: (Fair market value of leased space)	\$8,000,000

TOTAL SOURCE OF FUNDS:

A.

\$8,300,000

Only \$300,000 in capital funds will be required of the Francis SNF, which is the cost of the fixed equipment. These funds are available. No other capital funds will be required of St. Francis SNF since the capital costs will be borne by St. Francis RE Holding, the lessor. These costs will be included in the lease costs paid by St. Francis SNF over the term of the lease.

- 9. IMPLEMENTATION SCHEDULE: Please present of projected time schedule for the completion of this project from start to finish. Include the following items that are applicable to your project:
 - a) Date of site control for the proposed project:
 - December 2013, lease Letter of Intent signed
 - b) Dates by which other government approvals/permits will be applied for and received:
 - DOH licensure: applied for by January 1, 2014; received by July 1, 2014.
 - CMS (Medicare/ Medicaid) certification: applied for by July 1, 2014, received by March 1, 2015
 - c) Dates by which financing is assured for the project
 - Not applicable
 - d) Date construction will commence:
 - Not applicable (renovations will be done by the lessor prior to occupancy)
 - e) Length of construction period:
 - Not applicable
 - f) Date of completion of the project:
 - July 1, 2014
 - g) Date of commencement of operation:
 - July 1, 2014

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the Certificate of Need.

- 10. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the Certificate of Need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.
 - a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan
 - b) Need and Accessibility
 - c) Quality of Service/Care
 - d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
 - e) Relationship to the Existing Health Care System
 - f) Availability of Resources

The applicant/related entities. The applicant is St. Francis Skilled Nursing Facility Liliha, LLC (hereinafter "St. Francis SNF"), a Hawaii limited liability company. For state law purposes, this will be a single member limited liability company, with Franciscan Care Services (FCS), its parent company, being the sole member. FCS already has approval

(CON #13-09A) for 52 SNF beds on the Liliha campus. FCS in turn is a subsidiary of St. Francis Healthcare System of Hawaii (SFHSH).

Attachment E is a chart showing the relationships of the four entitles involved (SFHSH, St. Francis RE Holdings, FCS and St. Francis SNF).

Summary of the proposal. This SNF facility will occupy the third, fell the and afthe loors of the Sullivan building. St. Francis SNF will acquire the 52 previously-approved SNF beds (on the third floor) from FCS, and then add 67 more SNF beds on the fourth and fifth floors. Although all the beds will be licensed and certified as the facility will also serve hospice and ICF (intermediate care facility) level patients. Eight beds will be designated for hospice patients. Of the remaining beds, we project that approximately 40% of the patients will be SNF level, and 60% ICF level.

<u>Background.</u> SFHSH is Hawai'i's leader in home and community based care. As part of an extensive 20-year plan, SFHSH divested its two acute hospitals in January 2007, specifically to focus its attention and energies on home and community based care. However, the assets of both acute hospitals were returned to St. Francis in 2012 after the new owner filed for bankruptcy.

With the sale of the West campus hospital assets to the Queen's Health System, St. Francis is now moving forward with a new vision for the Liliha campus. We will transform the campus into a vibrant senior living center with access to amenities and services not found in any other setting in Hawai'i. We will provide a range of community and outpatient services, as well as residential/inpatient services ranging from independent living to skilled nursing.

The entire plan for the campus is still being developed, but Phase I is the renovation of the third floor of the Sullivan Building. This floor is the site of the 52 bed SNF unit previously operated by Hawaii Medical Centers, and before that by SFMC. Phase I was the subject of CON #13-09A, which was previously approved for FCS. Under this current CON application, St. Francis SNF will acquire these 52 beds from FCS. This constitutes a change of ownership from one entity to another substantially related entity.

Phase II of the plan will be to renovate the fourth and fifth floors of the Sullivan Building to provide an additional 67 SNF beds. Thus, there will be a total of 119 beds, 8 of which will be designated for hospice patients. This will free up space at the St. Francis Hospice-Nuuanu facility for patients who need room and board service. As noted earlier, although all the beds will be licensed and certified as SNF, we anticipate a patient mix of 40% SNF and 60% ICF. It is important to note that the facility will serve not only long-term care patients but short term transitional patients needing high-acuity/medically complex types of post acute services such as: stroke and orthopedic recovery; and respiratory rehabilitation and ventilator weaning.

The expense of renovating the facility will be borne by St. Francis RE Holding which will hold a leasehold interest in the land and a fee simple condominium interest in the improvements. St. Francis SNF will then lease the facility from St. Francis RE Holding and operate it.

RECEIVED A. Relationship to the Hawai'i Health Services and Facilities Plan (HSFP).

This application is seeking approval for St. Francis SNF (a 4ub#Hiag of 5CB) to acquire the 52 bed SNF unit/service now approved for FCS under CON #13-09A, and to add 67 more SNF beds. The project would result in a total service of 119 SNF beds.

HSFP goals. The most recent version of the HSFP was published in 2009. This proposal relates directly to one of the four goals in the HSFP: "focus on increasing cost-effective access to necessary health care services." There continues to be a need for long-term care (LTC) services on Oahu, and this proposal will provide SNF, ICF and hospice services as part of a senior living center with a wide range of services.

<u>HSFP specific areas of concern.</u> The proposal also relates directly to one of the "specific health areas of concern" as established by the Statewide Health Coordinating Council in the plan: "ensure capacity and access to a continuum of long-term care services." As noted earlier, the master plan for the Liliha campus will provide a continuum of services from independent living to SNF.

Honolulu SAC priority. Finally, the first priority of the Honolulu SAC as articulated in the plan is "Increase the availability of long-term care services and other supportive service."

<u>HSFP utilization thresholds.</u> The HSFP includes utilization thresholds for certain standard categories of health care services to guide the determination of need. Long-term care beds is one of these categories. This proposal meets the HSFP provisions for additional LTC beds, as presented in detail in the "Need" section below. Specifically, the plan calls for:

- 1. Define the target population. Response: the target population is the population of people on O'ahu needing long term care.
- 2. National utilization rates should be applied to the estimated target population to determine need. Response: the national utilization rate of LTC beds/1000 people 65+ is 42. The rate on O'ahu in 2010 was 19.2, less than half the national average.
- 3. Need estimates should be compared to current Hawaii licensed long-term care bed usage. Response: in 2010, O`ahu had 2,667 LTC beds with a 90% occupancy rate. If national utilization rates were applied, O`ahu would need an additional 2,000+ beds. This proposal will only add 67 beds to the 2010 inventory.

B. Need and Accessibility

<u>Target population</u>. The target population is any person who needs the standard LTC services or the high-acuity/medically complex services proposed. Mainly these are the elderly aged 65+. The service area includes all of O`ahu, although we expect that the majority of patients will come from a primary service area, defined as within a five-mile radius of the facility, and a secondary service area, defined as within the five-to ten-mile radius.

<u>Need.</u> The need for this proposal is established by historical data and by the future needs of the growing elderly population, as detailed below.

<u>Utilization of existing facilities.</u> The most recent SHPDA utilization report was for the year 2010. In that year, O`ahu had 2,667 LTC beds, including: Acute/BNF, SNF,/SNF/ICF and ICF. The utilization of these beds in 2010 was 90%, with several facilities reporting utilization exceeding 95%.

Since 2010, only 68 LTC beds have been added to the island's inventory—41 SNF beds at 15 Craigside and 27 beds at Manoa Cottages in Kaimuki. An additional 214 beds have received CON approval but have not yet been constructed: 15 beds at Manoa Cottages, 150 beds at Avalon Kaneohe and 49 beds at Kalakaua Gardens. A WY Fremis consultant has estimated that the current O'ahuwide utilization is now up to 92%.

Growth of the elderly population. The State Department of Business, Economic Development and Tourism (DBEDT) publishes population projections for the State. In March 2012, it published "Population and Economic Projections for the State of Hawaii to 2040." Here is a statement from that report:

The aging of the population is one of the most prominent features of Hawaii's population trend. The share of the population 65 years of age and over increased from 8.0 percent in 1980 to 14.5 percent in 2010. This trend will continue in the future, increasing this share of the total population to 23.6 percent in 2040 (Table 1-4).

The report finds that in 2010 there were about 138,490 elderly on O'ahu, accounting for about 14.5% of the population. By 2020, the elderly will rise to 194,718, or about 19.4% of the O'ahu population. This is an increase of 56,228 people.

<u>Waitlist.</u> One of the indicators of the need for more LTC beds is the "waitlist." This is the list of sub-acute patients who are backed up in acute beds, waiting for an appropriate LTC bed to become available.

In response to a legislative resolution in 2008, the Health Care Association of Hawaii prepared a 2009 report on the waitlist problem. The report began with the following statement:

Hawaii's healthcare system is broken. Symptoms of this broken system are waitlisted patients. These are patients deemed medically ready for discharge and no longer in need of acute care services but who cannot be discharged (due to various barriers) and therefore must remain in the higher cost hospital setting.

The report identified four "quadrant issues" that contribute to the problem, one of them being the lack of LTC beds in the community. The report found that on O`ahu, there was an average daily census of 106 waitlisted patients, 38 of them being at Queen's Medical Center. By 2012 the number of waitlisted patients at Queen's had risen to 54, with 42 of these being specifically waitlisted for SNF/ICF beds.

One of the recommendations of the report was "Add more long term care bed capacity tailored specifically to the needs of waitlisted patients."

Beds per 1000 population. A common way to assess bed need is to compare the LTC beds per 1000 elderly (people 65+ years of age) to national averages. According to a study

published by AARP (Across the States – AARP, Hawaii, Ninth Edition 2012) the national average is 42 beds per 1000. Statewide, Hawaii has 21 beds per 1000. The service area of O`ahu, with 2,667 beds, had 19.2 in 2010. This ratio has only per dithir is hed as the elderly population has grown, but only 68 beds have been added on O`ahu since 2010. As noted earlier, an additional 214 beds have been approved, but not yet established.

Certainly, reaching the national average, which would double the number of beds on O`ahu, is not a goal to be aimed for. However, it is a standard which is useful in considering the need for additional beds. This proposal would addictional beds (52 beds already being in the 2010 inventory).

<u>Accessibility.</u> St. Francis will provide service to all patients, including low income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups and the elderly. St. Francis is known for its commitment to service to the elderly and disadvantaged.

C. Quality of Service/Care

St. Francis has a long history of providing quality health services to the people of Hawai'i, with emphasis on serving the poor and the marginalized. The first Sisters of St. Francis, under the leadership of Mother Marianne Cope, came to Hawai'i in 1883 where they were put in charge of the Kakaako Branch Hospital for leprosy patients. Soon after that, they opened and operated hospitals on Maui and the Big Island.

The first St. Francis hospital on O'ahu was opened in 1927. Since then, St. Francis has established and maintained a history of providing a variety of quality health services to the people of Hawai'i, with emphasis on serving the elderly and the disadvantaged. This proposal by St. Francis SNF to acquire and reopen the 52 beds authorized for FCS, and to add 67 additional beds, will allow St. Francis to continue to provide quality services to those people in need of LTC service.

St. Francis has particular experience in providing high quality SNF services, since it operated the 52 bed SNF unit at Liliha for many years before the facility was acquired by Hawaii Medical Centers. The previous quality assurance policies and procedures, which can be updated and enhanced, will serve as the quality assurance basis for the new program.

The facilities will meet all licensure requirements for the State, and all certification requirements for Medicare and Medicaid. We will also seek TJC (The Joint Commission) accreditation.

D. Cost and Finances

- St. Francis SNF will bear only \$300,000 in fixed equipment capital costs. The remainder of the capital costs will be borne by St. Francis RE Holding, which will then lease the facility to St. Francis SNF.
- St. Francis SNF will operate on a fiscal year beginning July 1st and ending June 30th. We expect to admit our first patients to the SNF in July, 2014. Exhibit D-1 presents summary

revenue and expense projections for years 1, 2 and 3 (fiscal years ending June 30, 2015, 2016 and 2017). These projections are based on the following assumptions:

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The first patients will be admitted July 2014.

- Medicare certification is assumed to take six months. As a result, the first Medicare patient will be admitted in month seven.
- patient will be admitted in month seven.
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 Medicaid certification is assumed to take nine months. As a result, the first Medicaid patient will be admitted in month ten.
- The facility will achieve stabilized occupancy (113 patients or 95% accupancy) in the 26th month after opening.
- Net operating income (NOI) in year one is a negative \$2,606,991.
- NOI becomes positive in month 15, i.e., the facility becomes "profitable" at that time.

EXHIBIT D-1

	Year 1	Year 2	Year 3
Net Revenue	\$1,608,655	\$10,059,910	\$14,278,384
Expense	\$4,215,646	\$9,157,965	\$11,673,568
Profit/(loss)	\$(2,606,991)	\$902,345	\$2,604,815

E. Relationship to the Existing Health Care System

This proposal relates well to the existing health care system. There is a current and future need for LTC beds on Oahu. The 52 bed SNF unit on the third floor was part of the system for many years, but unfortunately was closed when HMC declared bankruptcy. The loss of these beds presented a strain on the rest of the system as it tried to accommodate the displaced patients, especially those that needed a high acuity level of SNF care. The additional 67 beds on the fourth and fifth floors will also benefit the system as the population ages and more LTC beds are needed. Since 2010, only 68 beds have been added to the LTC system on O'ahu (with 214 more beds approved, but not yet constructed). At the same time, the number of people over 65 (the major users of LTC beds) will have increased by 56,228 by the year 2010. If national standard were used, the system would need to add about 2,000 more beds to meet their needs.

It is also important to remember that these SNF beds are but one component of St . Francis' vision for the Liliha campus – a vibrant senior living center with access to medical care in one community. The achievement of this vision will be a major benefit to the health care system of O`ahu.

F. Availability of Resources

The financial resources are available. Only minor capital expenditures are required of St. Francis SNF, since renovation and equipment costs for the facility will be provided by the lessor. Starting in year 2, and continuing into year 3, the facility will operate at a profit, which will be sufficient to offset the operating loss in year 1.

Table F-1 on the following page shows the personnel requirements. These resources are available in the community, especially with the recent closure of the two Hawaii Medical Center facilities and the consequent job loss to so many health workers. St. Francis SNF has already prepared the job descriptions for the facility, and we are ready to post them as

the project progresses. The St. Francis system receives frequent inquiries from health care workers about the availability of jobs.

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Some services will be outsourced, including: physical therapy, occupational therapy, speech therapy, pharmacy, housekeeping, laundry and maintenance. p3 43

TABLE F-1

Title	& DEV. AGER
Management	
Medical Director	1.00
Administrator SNF	1.00
Director of Nursing (DON)	1.00
MDS Coordinator	1.00
Business Office Manager	1.00
Food Services Manager	1.00
Social Services Manager	1.00
Recreation Manager	1.00
Admissions Coordinator	1.00
Assistant DON	1.00
Clinical Staff	
RN Staff	14.00
LPN Staff	8.00
CNA Staff	40.00
Restorative Aide	1.00
Health Education Instructor	1.00
Ward Clerk	1.00
Medical Records Clerk SNF	1.00
Support Services Staff	
Social Work SNF	2.00
Recreation Assistant	3.00
MDS RN	1.00
Billers	2.00
Receptionist	1.00
Cook	4.00
Food Service Worker	3.00
Dishwasher	2.00

11.		y to file for Administrative Review. This project is eligible to file for rative review because: (Check all applicable) RECEIVED
		It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
		It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual of expense of less than \$500,000.
		It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.
	_ <u>X</u> _	It is a change of ownership, where the change is from one entity to another substantially related entity. (This only applies to the 52 beds on the 3 rd floor).
		It is an additional location of an existing service or facility.
	<u> </u>	The applicant believes it will not have a significant impact on the health care system.